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Article (Accepted Version)

Germann, Julian (2018) Beyond 'geo-economics': advanced unevenness and the anatomy of German austerity. *European Journal of International Relations*, 24 (3). pp. 590-613. ISSN 1354-0661

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Beyond 'Geo-Economics':

Advanced Unevenness and the Anatomy of German Austerity¹

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Abstract

This article aims to shed new light on Germany's domineering role in the eurocrisis. I argue that the realist-inspired depiction of Germany as a 'geo-economic power', locked into zero-sum competition with its European partners, is built around an empty core: unable to theorise how anarchy shapes the calculus of states where security competition has receded, it cannot explain why German state managers have insisted on an austerity response to the crisis despite its significant risks and costs even for Germany itself. To unlock this puzzle, this article outlines a version of uneven and combined development (UCD) that is better able to capture the international pressures and opportunities faced by policy elites in advanced capitalist states that no longer encounter one another as direct security rivals. Applied to Germany, this lens reveals a twofold unevenness in the historical structures and growth cycles of capitalist economies that shape its contradictory choice for austerity. In the long run, the reorientation of the export-dependent German economy from Europe towards Asian and Latin American late industrialisers renders the structural adjustment of the eurozone an opportunity – from the cost-saving view of German manufacturers producing in the European home market for export abroad, as well as for German state officials keen to sustain a crumbling class compromise centred on Germany's world market success. In the short term, however, its exposed position between the divergent post-crisis trajectories of the US and Europe accelerates pressures for austerity beyond what German state and corporate elites would otherwise consider feasible.

¹ This article was written as part of a joint research project on 'The Current Conjuncture in World Affairs' which was jointly funded by the University of Sussex and the Polson Institute for Global Development at Cornell University.

Since the onset of the global financial crisis, the liberal project of an 'ever closer' European Union (EU) has been thrown into fundamental disarray: by a protracted slump that has engulfed the Southern periphery of Europe, and by the assertion of German primacy at its Northern core. To many observers these two processes are intimately connected. German policy makers more than anyone else have blocked a range of solidaristic solutions to Europe's public debt crisis (Cesaratti, 2013: 249; Cafruny, 2015: 66-67)²; they have steadfastly resisted calls to reflate their domestic economy and rein in their trade surplus (Pettis, 2013; Beck, 2015); and they have most vigorously tied financial support for Southern deficit countries to a programme of budget cuts, structural reforms and privatisation schemes that many argue has pushed the targeted economies deeper into recession (Hudson, 2012; Blyth, 2013b). In the eyes of numerous critics, therefore, Germany has used its newly revealed might in ways that have exacerbated rather than contained the centrifugal forces that continue to threaten the EU nearly a decade after the US subprime mortgage crisis reached its shores (Jones, 2010; Wolf, 2016; Krugman, 2017).

The centrality of the German state to the (mis)management of the eurocrisis has given rise to a large body of political commentary and scholarly analysis that has sought to explore the forces driving its uncompromising insistence on 'austerity'. Among the competing explanations on offer are liberal pluralist accounts that emphasise party-political and electoral pressures (e.g. Oppermann, 2012), constructivist interpretations that see a German variety of neoliberalism at work (e.g. Blyth 2013a; 2013b), and Marxist renditions in which German crisis managers seek to restructure the eurozone in the interest of German (or European) capital (e.g. Lapavitsas et al., 2013). While they identify important factors that

² The most prominent measures opposed by German officials include proposals to issue joint eurobonds, to grant debt relief or ease loan conditionalities for heavily indebted countries, or permit the European Central Bank (ECB) to buy government debt.

have informed Germany's handling of the eurocrisis, I argue below that they cannot fully resolve the conundrum of why German policy makers have continued on a path of austerity despite the enormous costs and risks associated with this strategy.

Given these limitations, Germany's domineering and dysfunctional role in the eurocrisis appears to be captured most closely by an alternative, realist-inspired interpretation of Germany as a 'geo-economic power'. According to this influential account, Germany is engaged in zero-sum competition with its European partners (Rachman, 2010: 185; Kaletsky 2011; Baru 2012: 47; Blackwill and Harris 2016: 82). By pursuing export surpluses, refusing to redress the resulting trade imbalances, and instead forcing Southern deficit countries to adjust through austerity, Germany is said to be "applying the methods of commerce within a logic of conflict" (Kundnani 2011: 40). The key to unlocking the paradox of Germany's crisis management, following this narrative, is to be found at a higher level of analysis closed off to rival approaches: the Hobbesian nature of international politics as 'anarchy' which pits states against one another in an inescapable struggle which, within the post-Cold War West, is said to play out in the economic rather than military sphere (Luttwak, 1990; Baru, 2012: 49; Blackwill and Harris, 2016: 26).

The purpose of this article is to challenge the explanatory potential of this paradigm. My main contention, elaborated in the section below, is that the narrative of Germany as a geo-economic power is built around an empty theoretical core. While it uses the language of realism, it lacks a clear conception of how 'anarchy' – defined by realists as the absence of a higher political authority and the corresponding threat to survival – actually shapes the calculus of states in situations where security concerns do not operate or have receded. Short

of a compelling, theoretically grounded answer, Germany's contradictory choice for austerity remains unexplained. To solve this empirical puzzle, the second section draws on the framework of uneven and combined development (UCD) which recasts the anarchy problématique as the co-existence of differentially developed societies that impinge on one another in ways that exceed realism's 'security dilemma' in which one state's gain is another's loss. This heuristic, I argue, is better able to capture the international pressures and opportunities confronted by policy elites in advanced capitalist countries which no longer pose an immediate existential threat to one another.

Applied to the German case, the third section argues, this lens reveals that Germany's approach to the eurocrisis is conditioned by two processes: in the long run, the fit between Germany's long-standing export orientation and the rise of China and other emerging powers changes the significance of the eurozone for the German economy from sales market to supply zone; and in the short term, the divergence in national growth rates between the US, EU and China exposes Germany to sudden changes in interest rate differentials that threaten to disrupt its exports to emerging markets and to deepen eurozone debt beyond repayment. While emerging market demand makes austerity an opportunity for German elites as it promises to lower the costs of inputs, raise the competitiveness of German exports, and support the productivist compromise with organised labour, the imminent threat of a US interest rate hike makes such restructuring an urgent necessity. In this way, the article concludes, the twofold unevenness at work in the advanced capitalist world—different structural orientations of national political economies and their asynchronous growth cycles—creates lateral pressures that push German elites further down a path of austerity than they would otherwise consider viable.

Making Sense of German Austerity: The Advent of Geo-Economics?

Given its unparalleled position of influence within an imperilled EU, the drivers and motivations behind Germany's approach to the eurocrisis have been the subject of significant scholarly attention. A considerable number of contributions draw on the major traditions of thought within International Relations/International Political Economy (IR/IPE). Some accounts inspired by liberal pluralism, for instance, have framed their investigation in terms of a 'two-level game' (Putnam, 1988). From this standpoint, the German government's hardened stance vis-à-vis Europe's debtor states has been shaped by the need to placate hostile public opinion and fierce political opposition from within its own ranks (e.g. Oppermann, 2012: 511-513). Party and electoral politics may shed some light on why the Merkel government missed an early opportunity to provide swift financial support to Greece and arguably nip the crisis in the bud (Jones, 2010). The paradoxical situation this has created of burdening the German taxpayer with even larger bailouts tied to ever more unrealistic criteria seems more difficult to attribute to these domestic constraints, however. It is less clear why the Merkel government should continue to 'kick the can down the road' across several election cycles – not least because the same government proved able to defy similar levels of political opposition on the equally divisive issue of a humanitarian response to the Syrian refugee crisis.

Constructivist scholarship, with its emphasis on ideas rather than interests, has honed in on the puzzle that austerity has failed and yet continues to be pursued. Scholars working within this tradition have argued that German officials are oblivious to the negative consequences of their actions because they are trapped in an 'ordoliberal' mindset which

prescribes painful retrenchment as just atonement for the sins of profligacy and indebtedness (Blyth, 2013a, 2013b; Dullien and Guérot, 2012). While constructivist accounts mount a serious challenge to existing attempts to explain Germany's choice for austerity on the basis of rational self-interest, the ideational explanation they favour encounters significant limitations itself. What is difficult to explain from this perspective is why the German variant of neoliberalism should be any more persistent than its Anglo-American kin, whose 'less state, more market' mantra was trumped in 2008 by a highly unorthodox monetary and fiscal crisis response.

Both approaches, to be sure, have considerable merits and deserve closer attention than can be afforded within the margins of the paper. What is important here is that while they may capture some of the complications of Germany's crisis management, they have little to say about the resurgence of its power that render *this country's* ideational idiosyncrasies and party-political complexities of such central importance to the fate of the EU.

The Marxist tradition, by contrast, has inspired comprehensive accounts of how the German state and 'its' capital have established themselves at the core of an asymmetrical Economic and Monetary Union (EMU) that has reinforced Germany's export competitiveness at the expense of its Southern European neighbours (e.g. van der Pijl, Holman and Raviv 2011; Stützle 2013). By giving up their national currencies, Germany's trading partners have lost the lever of devaluation to compete with German exports; and by incorporating weaker economies, the euro trades lower than the Deutsche Mark (DM) would and thus cheapens German exports beyond the eurozone (Lapavistas and Flassbeck, 2015). Locked into a common currency and unable to follow the German path of internal demand and wage

repression, the peripheral countries of the EMU have run a persistent trade deficit with Germany which many see as the cause of the eurocrisis (Lapavitsas et al., 2012; Pettis, 2013; but see Dooley, 2015).

Despite or indeed because of these merits, Marxist accounts confront the opposite problem to liberal-pluralist and constructivist scholarship: in light of a grand strategy of neoliberalism at home and mercantilism abroad, the short-termism of Germany's crisis managers seems surprising. Given that the EU absorbs half of its exports, doesn't Germany's resistance to more generous financial support and its insistence on balanced budgets and debt brakes sap European demand for its products, and therefore countervail the export-led growth strategy attributed to it? Considering, moreover, the devastating impact austerity has had on the economies of debtor states and their capacity to service their debt, doesn't it expose the German state to even more liabilities and the serious risk of default? And lastly – as epitomised in the dramatic standoff over Greece in 2011 and 2015 and the opposition from the affected populations as well as within elite policy circles – – doesn't Germany's harsh austerity course threaten the coherence of the EMU from which German capital above all is said to have benefitted so much?

Far from rhetorical, these questions point to a peculiarly self-limiting dimension to Germany's approach to the eurocrisis that seems difficult to reconcile with the notion that the German state acts in the direct or structurally mediated interest of German exporters and their financiers, let alone a European or transatlantic capitalist class. This complication has been acknowledged by Marxian scholars themselves, who have castigated the troika's insistence on deep budget cuts in the face of depression as "vindictive madness" (Lapavitsas, 2015) and marvelled at "the abysmal ignorance" (Flassbeck, 2016) of Europe's

chief crisis managers. The key puzzle, in other words, is that Germany has pushed the EU down a path of austerity that appears dysfunctional not only from a pro-European standpoint, but even from the narrow point of view of German political and economic elites themselves.

The final endeavour to resolve this conundrum has been inspired by a version of realism that predicts a shift from Cold War geopolitics towards a demilitarized, but no less rivalrous, era of geo-economics (Luttwak, 1990; Baru, 2012). Second in popularity only to the ideological explanation of German crisis management discussed above, the portrayal of Germany as “[t]he most powerful present-day example of” a geo-economic power carries considerable credibility (Blackwill and Haris, 2016: 86). Given Germany’s lead role in imposing austerity on Southern Europe and blocking a range of policy alternatives, the concept appears to capture the dramatic *volte face* of a state long considered to have renounced power politics in favour of economic prosperity and to be dedicated unconditionally to liberal multilateralism and the European idea (Rosecrance, 1986; Maull, 1990; Maull, 2013). It also speaks to a profound disillusionment with the liberal vision of an open and prosperous world economy and echoes widespread concerns about an emergent self-help world (e.g. Wolf, 2007; Rachmann, 2010). Lastly, and most importantly, it seems to go further where other approaches have become stuck: rather than search for the determinants and contradictions of Germany’s European policy within its political landscape, the realm of ideas, or the terrain of class struggle, the geo-economic narrative centres on the international arena as the source of Germany’s self-interested and self-limiting crisis management.

Germany, in this specific application of the 'tragedy of great power politics' (Mearsheimer, 2001), is caught between a rock and a hard place. It occupies a position of 'semi-hegemony', reminiscent of the fateful imbalance introduced into continental European power politics after German unification in 1871 (Kundnani 2011; Corn, 2011). Too strong to be just one among many, but too weak to rule the continent, Germany lacks the resources and vision necessary to offer the sort of benign leadership provided by the United States after 1945 (Cafruny, 2015). While it can "protect itself from the economic decisions of its neighbors" (Leonard, 2015: 4), it cannot offer a comprehensive, let alone sustainable, solution to the eurocrisis. A victim of its awkward size and location within the international and European order, German policy makers cannot but follow a narrowly self-interested strategy despite the significant risks and costs associated with it (Kluth, 2013). The German choice for austerity, imperious and unviable though it may be, "reflects the limits of its geo-economic power" (Kundnani 2014: 110).

The problem with this interpretation is that even as it leverages the international sphere as an explanation for Germany's behaviour, it fails to specify the underlying mechanism that supposedly translates a particular international distribution of power into national policy choices. The guiding premise of the realist paradigm is that this motive force is anarchy: the absence of a central authority and associated security guarantee that leaves states to their own devices, casts their counterparts as potential adversaries, and instils in political operators an overriding concern for the distribution rather than the overall size of the benefits to be derived from international cooperation. And yet, once made explicit, it becomes clear just how dubious the assumption is that an anarchy-induced imperative of survival should underlie the zero-sum rationale of Germany's crisis managers. Even

sympathetic critics have raised serious doubts whether the security dilemma—in which greater security from some means greater insecurity for others—can be easily extended to the economic sphere (Mastanduno and Kapstein, 1999: 14), whether it applies to relations among allies (Deudney and Ikenberry, 1999: 191), and whether it actually explains zero-sum behaviour even where and when it occurs (Legro and Moravcsik, 1999: 26; Kirshner, 2009: 40).

Thus while the language of geo-economics may provide an apt *description* of Germany's parochial and paradoxical crisis management, it offers little by way of *explanation*. Transposing inter-state competition from the security to the commercial arena may work at a rhetorical level, but without a corresponding theoretical move, it obscures rather than illuminates the specific nature of the international pressures that appear to force the hands of German state managers. The critical issue is not that states pursue their interests at the calculated expense of others and at the risk of self-sabotage, but how and why they are compelled to do so. Unless one can anchor the competitive calculus of states in the problem of anarchy, the realist prerogative disappears. We are sent back to the domestic level of analysis without having solved the puzzle we set out to explain: why it is that German state managers have pursued an austerity regime even while its counter-productive effects have become more and more apparent.

This article argues that while the international level does indeed hold the missing piece of the jigsaw, the geo-economic narrative cannot provide it. In its place, the next section employs the framework of uneven and combined development (UCD) to broaden our conception of the anarchy problématique beyond the remit of realism. Rather than simply

the *absence* of international authority that realism makes central to its inquiry, it is the *presence* of differently constituted capitalist societies that defines the force field which German state managers confront. Germany's choice for austerity, I argue, is framed by a twofold unevenness: its long-standing export orientation that is shifting from Europe towards a new generation of late industrialisers, and its precarious position between divergent growth cycles in the United States, the EU, and emerging market economies.

From Anarchy to Contemporaneity: Advanced Capitalist Unevenness

Our entry point into the alternative framework outlined above is to follow Justin Rosenberg's invitation to rethink international anarchy in a sociologically enriched way as "that dimension of social reality which arises specifically from the co-existence...of more than one society" (Rosenberg, 2006: 308). Viewed through the lens of UCD, anarchy is not limited to the horizontal fragmentation of political authority that realist scholarship is preoccupied with (Rosenberg, 2013: 186). Its *problématique* is not simply *many states* but *different societies* at various points of development. With this reformulation, anarchy is given a social substance. No longer separated from the domestic realm, anarchy emerges from the diverse societies that inhabit the world; and as the sum of their interactions, it enters into how each of these societies is constituted and develops over time. In this dialectical view, "anarchy is an emergent property *of* social development, rather than being an extraneous condition operating over and against it" (Rosenberg, 2013: 195).

Reintegrating 'the international' into the 'social' in this way has been an enormously productive undertaking. Building on Leon Trotsky's original insights into the Russian

Revolution, it has given rise to a wide range of empirical and conceptual engagements (e.g. Anievas and Nişancioğlu, 2015; Buzan and Lawson, 2015; Matin, 2013).³ The present article sets out to extend the basic idea of UCD to a new area: the present-day relations among the states within the old North Atlantic core of global capitalism. It therefore asks: what, if any, causal significance does this enlarged understanding of anarchy – now defined as both the horizontal fragmentation of the world into multiple political units *and* the developmental differences between them – hold in a context of mature capitalist societies that have reached similar (end) points in their industrial transformation? Not the predicament that realist thought revolves around, it turns out. Having developed into structurally similar, capitalistically advanced states, economies and societies, the distinction between early industrialisers and relative latecomers that drove great power politics in the nineteenth century no longer holds (Buzan and Lawson, 2015: 265). And along with the problem of catch-up industrialisation famously explored and systematized by Alexander Gerschenkron (1962), the specific *geopolitical* imperative for ruling elites to modernise and innovate in order to match the military might of their more advanced rivals has faded into the background. Among the advanced capitalist states today, the security dilemma that realists elevate to a timeless principle of international relations is no longer the principal causal dynamic to which anarchy gives rise.

And yet there still exists what Sidney Pollard (1981: 184-185) called “the differential of contemporaneousness”: the presence, at any given point, of other societies which he believed shaped not only the individual pathways of late industrialisers but also their subsequent development. Gerschenkron’s analysis, in his view, “merely looks backward

³ A full list can be found at <www.unevenandcombined.com>.

into each country's own history, neglecting, except implicitly, its contemporaries at each stage" (1981: 187). By contrast, Pollard conceived of a European and wider world economy of any one society "being contemporary with others" (1981: 30) as a powerful force reaching into the present. While the locus of capitalist late development has shifted from the North Atlantic to other regions of the world, Pollard saw that the economies of the old core would continue to exert a causal impact on one another. This additional layer of causal determination is lost if we only focus on the domestic properties of any one of them in isolation from the others. In addition to the class forces, ruling ideas, and governance structures of the particular society under investigation, Pollard invites us to think more systematically about the ways in which the advanced capitalist countries continue to differ from one another even after their industrial revolutions, and how these differences inform the strategic remit of policy makers.

To unpack this 'advanced capitalist unevenness', two steps are proposed. The first is to trace the peculiarities that societies have accumulated along their individual paths towards capitalist maturity, and which continue to present distinctive structural constraints and complementarities (Bruff, 2015). The first leg of the journey undertaken below therefore asks how the historical sequencing of capitalist industrialisation can explain the specific shape of the German political economy and illuminate its trajectory in the contemporary global political economy. Close attention to the particular circumstances under which German capitalism came into being and was re-stabilised after 1945 can help us better understand the impact that the massive rise of China and other emerging market economies is having on the significance of the eurozone for the German growth model and on the policy orientation of its decision-making elites.

The second line of investigation into how its advanced capitalist contemporaries condition Germany's crisis response focuses on the recurring economic cycles that characterise their development. The search for what *causes* these periodic fluctuations is ongoing (cf. Sewell, 2012). What concerns us here is that national and regional waves of boom and bust continue to be out of phase even within the advanced capitalist world. Because they differ in amplitude, duration and frequency, they create an uneven and ever-changing international terrain that economic decision makers have to navigate. We can expect them to formulate policy with an eye to the upswings and downturns experienced by other economies and their actual and potential spillover effects. In this way, the coexistence of capitalistically developed societies – and the difference in the timing, depth and duration of their national growth cycles – exerts an influence over policy makers that cannot be reduced to their specific domestic situation. Applied to the German case, the final section shows, this second vector of unevenness explains why Germany's crisis managers have felt under pressure to impose austerity beyond what would seem comprehensible when considered solely from the individual point of view of their state and society.

Advanced Unevenness Applied: The Anatomy of German Austerity

The analytical promise of the framework sketched out above is that it can throw new light on the causes and contradictions of Germany's crisis management. The principal puzzle, to recall, is why German state elites have vehemently insisted on an austerity response and stubbornly resisted cooperative and expansionary remedies despite the mounting costs of this self-centred strategy. To make sense of this seemingly irrational behaviour, we need to investigate "the peculiar nature of the German economy as a centre of advanced, export-

oriented manufacturing” (Streeck, 2013: 727 fn. 2). And this in turn requires that we go back to the moment of its belated but accelerated entrance into the capitalist world market (Berghahn, 2006: 41).

Legacies and Trajectories of German Export Dependence

This long-run historical perspective reveals an astonishing continuity in the basic structure of German capitalism. Germany’s experience of late industrialisation was bound up with foreign trade in ways that survived two depressions and world wars and reverberate powerfully in the present (Abelshauser, 2001).

First of all, its industrial take-off was overshadowed by the onset of a global depression of primary commodity prices between 1873 and 1896 that ended the complementary integration of Prussia as supplier of agricultural inputs into the British-centred world market (Stolper, 1940: 63-65). More auspiciously in terms of historical timing, German catch-up efforts began just as a series of technological innovations was replacing the first-generation industries that had fuelled Britain’s ascendancy (Allen, 2010: 137; Braun, 1990). Aided by its geographical proximity to an agrarian hinterland insulated from Britain’s superior competition (Pollard, 1981: 174), the German economy rapidly transformed from an intermediary between Britain and the continent’s periphery to a major high-technology exporter (Pollard, 1981: 178, 182).

While its time and place oriented the German political economy towards world trade, its internal organisation made such outward expansion a necessity. The infamous coalition of

‘iron and rye’ —forged between Prussia’s agrarian elites who abandoned free trade during the agricultural depression and Ruhr industrialists seeking respite from a cyclical downturn—limited the scope of the home market. Protection against cheaper grain imports which threatened the prosperity and power of the Junker class increased living costs and wage pressures and tied labour to the land (Gerschenkron, 1966: 45). Industrial tariffs, meanwhile, enabled the newly formed cartels to constrain competition and raise domestic prices above world-market levels (Gerschenkron, 1966: 45; Trebilcock, 1981: 71-72). To compensate for the lack of internal demand and investment opportunities, German industry came to depend for its continued growth upon its success in foreign markets (Kemp, 1985:108; Abelshauser, 2001: 511; Braun, 1990: 58, 66). And as a way of externalising the aggressive oligopoly practices that had hindered development at home, it embarked from about 1900 on a government-sanctioned export-dumping offensive that destroyed the nascent manufacturing industries of its continental neighbours (Trebilcock, 1981: 73). Through specialisation in the new growth sectors—chemical, electrical, optical and high-precision engineering—Germany reached second place among the world’s leading exporters on the eve of the First World War; a position that its product portfolio allowed it quickly to recover and maintain for over a century (Stolper, 1940: 52; Lindlar and Holtfrerich, 1997: 221).

Summing up, the excessive export orientation that some observers see as trumping Germany’s ‘civilian power’ today (Maull, 2013: 20) has roots that reach far back into the history of German capitalism. It emerged not only from the particular world market pressures and opportunities German industrialisation encountered, but also from the strictures and incentives imposed by Germany’s social composition. More than “a simple

reflection of Germany's participation in an international division of labour", Tom Kemp (1981: 116) concluded, "[t]his one-sidedness was, in part, a consequence of the compromises which [business] had been obliged to make with the agrarian interest". It is this combination of external and internal conditions which gave German development a powerful outward thrust and which set up Germany as the 'premier provider' of the capital goods necessary for spreading the industrial revolution across continental Europe and elsewhere.

The consistent and growing trade surplus Germany has posted since 1951 (Beck, 2015: 153) and the staggering increase in its export ratio since the introduction of the euro (from 26.5% of Gross Domestic Product (GDP) in 1998 to 46% in 2016) are part of this long-run trajectory. Uniquely among the advanced industrialised countries, Germany has defied the secular decline of its manufacturing base (Vihriälä and Wolff, 2013: 48, 60). And, since the start of the twentieth century, it has maintained a remarkably stable share of global merchandise trade, while the US share declined steadily after 1945 and Japan's entered into a long period of deceleration in the 1990s. There is, then, every indication to believe that in the present world-historical context of the 'rise of the rest', German elites will continue along a path of external growth. The key difference is that, bound up with a tidal wave of late development, this strategy points increasingly beyond Europe.

The phenomenal rise of China as the world's major manufacturing centre intensifies competition over global market shares and exerts enormous pressures to reinforce and further *internationalise* Germany's export model. But, alongside other large emerging market economies, China's capitalist industrialisation also vastly expands the scale of opportunity. Although the EU still absorbs the majority of German exports, emerging markets offer far

greater room for expansion given that German manufactures are “almost perfectly suited to the needs of rapidly growing economies” (Hübner, 2015: 399; Bartlett and Roller, 2010: 3). In comparison, the EU home market is increasingly saturated, with the vast majority of German investment going into supplying existing customers rather than producing for new markets (DIHK, 2015). The crisis, moreover, has sapped the ability of European markets to absorb German exports and increased the importance of other outlets. While Germany’s net exports to the eurozone halved between 2007 and 2011, a growing trade surplus with the rest of the world more than compensated for this loss (Jannsen and Kooths, 2012: 6-7).

At first blush this long-term trajectory appears to do little more than set the stage for commercial rivalries to play out in a global rather than European theatre. To challenge rather than confirm the realist image of German geo-economic power, we need to consider the *novel* social purpose that came to infuse the export orientation of the German political economy under the postwar hegemony of the United States. Given its specialization in the manufacture and export of high-quality capital goods, Germany was central to American plans to reconstruct and stabilise the economies of the North Atlantic core through the extension of Fordist patterns of mass production and consumption and Keynesian demand management. Germany at once benefitted from and stood at one remove from these designs. The external demand for its manufactures meant that it could partake in the massive postwar boom without, however, fully converting to Fordist and Keynesian principles itself.

Alongside standardized mass production, small and medium-sized enterprises and regional economies in particular retained and deepened aspects of ‘diversified quality production’ inherited from the *Kaiserzeit* (Beck, 2015: 219-220; Herrigel, 1996; Abelshauser,

2004: 30-34). According to Stefan Beck (2015: 223, 230-231), the focus on specialised goods with distinctive non-price advantages and on income-elastic niche markets allowed German exporters to raise their profit margins and selectively reward skilled workers with payments above the pay scale. Most notably, therefore, in Germany the Fordist 'virtuous circle' took a detour through the world market. Rather than technology-induced productivity gains translating into higher wages that in turn drove up domestic demand, corporate profits, and investment, international expansion acted as the chief catalyst for Germany's recovery (Beck, 2015: 161; Shonfield, 1965: 288-289). Only in a second and conditional step were the fruits of Germany's strong export performance passed on to workers, whose productivity increases outpaced the growth in labour compensation until the late 1960s. Instead, in growth markets where German exporters competed directly via prices rather than superior craftsmanship or specialisation, wage moderation was seen as the key to success – not only by specific firms or sectors but also by political decision makers (Beck, 2015: 223). By curbing wage growth through interest rate raises, Germany's monetary officials sought to keep domestic inflation below the levels of its international competitors, and thus to secure price advantages for German firms and their products in global markets (cf. Scharpf, 2015: 92-93; Holtfrerich, 2008: 35).

The structurally inherited export orientation of Germany's economy was elevated by its post-fascist elites to a strategic priority (Beck, 2015: 223). The return to the world market was seen as vital if the new West German state was to quickly rebuilt and earn the US dollars needed to pay for imports, wartime reparations and debt. It also presented a golden opportunity as German capital goods were in high demand with the onset of the Korean War. Finally, it offered a distinctly 'non-Keynesian' route towards a prosperity capitalism

that received its main impetus from abroad rather than through wage-led and state-managed domestic demand. To Germany's conservative classes, confronted with allied denazification directives and pressures for a socialist transformation from below, the pursuit of a trade surplus promised to limit state intervention to welfare state compensation and to tie material rewards to labour discipline (Cesaratto and Stirati 2010: 73; Becker 2015: 240).

It is in this particular rather than general mercantilist sense that foreign trade, in the words of Ludwig Erhard (quoted in Cesaratto and Stirati, 2010: 73), became "the very core and even precondition of our economic and social order". Rather than power and plenty writ large, the pursuit of export-led growth emerged as the preferred strategy of state-building and social pacification after the defeat of fascism and the delegitimation of authoritarian forms of labour control. Mediated by Marshall planners, the far-reaching demands of trade unionists and social democrats for economic democracy, state planning and nationalisation were channelled into co-determination laws that recognised workers as stakeholders in the performance and management of the firm. Enlisted in a common export drive that promised job security, material and social gains in exchange for trade union and work council cooperation and, if necessary, concessions, organised labour in the core industries has been brought into a system of economic coordination that includes universal banks, large firms, state agencies, and research institutes (Esser and Fach with Dyson, 1983: 108).

There is no doubt that this bloc of what scholars have called *Germany Inc.* has weakened significantly over the last three decades of neoliberal globalisation (cf. Streeck 2009). Large banks and multinational corporations have internationalised their operations and scaled

back their commitment to the German model, while organised labour has been marginalised by the welfare state and labour market (the so-called 'Hartz IV') reforms introduced by the Red-Green coalition in 2002. A key constant, however, has been a common focus on exports, both as an accumulation strategy of individual firms and sectors and as a macroeconomic target of policy making. For a range of actors, Germany's trade surpluses continue to be a measure of success, routinely reported in the media and defended vigorously by public officials against outside criticism (Beck, 2015: 153). The great recession, moreover, has forged a form of 'crisis corporatism' between employers and workers. Although on less favourable terms for labour, this revived corporatism builds on key elements of the productivist compromise, including job guarantees in exchange for work time concessions and a concentration on international markets (Urban, 2012; Solty, 2016: 39-40).

Far from alive and well, it is precisely the gradual erosion of the German social model that defines the challenge confronted by German policy makers in the context of the eurocrisis. Tasked to mediate between the diverse and potentially conflicting interests of an unravelling *Germany Inc.*, German officials rely on the proven remedy of an export drive. And we shall see below that, within definite limits, their choice for austerity within the eurozone fits this balancing role as it promises to promote the world market position of German capital while keeping privileged segments of organised labour on board.

What is at stake in the debate over the eurocrisis, therefore, is not a timeless struggle for the world surplus but, as Luigi Bonatti and Andrea Fracasso (2013) insist, the viability of a particular national political economy that has come under considerable strain. This political economy is a legacy of Germany's peculiar insertion in the capitalist world market and

reconstruction after 1945. And, as Robert Boyer (2015: 217) sums up, it “can function as long as there are waves of industrialisation in new countries that require capital goods made in Germany”. Seen in this light, we can begin to understand the long-standing political consensus that makes Germany’s incumbent and prospective state managers (with the exception of *Die Linke*, of any party-political affiliation) defend German trade surpluses and resist the internal demand stimulation that many observers propose as the only viable solution to the structural imbalances that plague the eurozone.

Of course, if Germany is to retain its position as the workshop of a rapidly industrialising world, it simply cannot afford to rein in its export prowess (Bonatti and Fracasso, 2013: 1029). But behind this ostensibly geo-economic calculus of defending Germany’s market share in the face of global competitive pressures lies the concern to preserve an institutionalised set of industrial relations forged on the basis of Germany’s buoyant export economy. A shift towards domestic expansion diminishes not only German export performance, but also the underlying class compromise it relies on and is meant to secure. Germany’s international competitiveness—based on the suppression of internal demand, the containment of wages, and the maintenance of price stability—ultimately requires compliant unions and work councils that are willing to moderate their demands. A programme of public investment unduly strengthens organised labour and “threatens the wage coordination on which exports are based” (Hall, 2015: 55), thus undermining both German economic success and social cohesion.

Taking stock of the argument so far, the long-run specialisation in the export of capital goods and durable consumer goods, and, starting in the boom years of the 1950s, the accumulation

of a consistent trade surplus as a source of domestic stabilisation, present an almost insurmountable hurdle for German crisis managers to pursue anything other than an export-led recovery in the wake of the global financial crisis (Cesaratto, 2013: 248; Hall, 2012: 144). The challenges and opportunities posed by the rapid industrialisation of China and other emerging economies, meanwhile, offer a major incentive to continue this course.

But this structural fixation on exports as the key to social stability at best explains why German policy makers would shirk their responsibilities within the solidarity community of the EU despite the plight of the Southern economies. The growing importance of extra-European markets for the vitality of the German social model (Hübner, 2015: 405), to be sure, can explain why German state managers would eschew domestic reflation; but it still leaves us wondering why they would insist upon austerity measures that many have argued must undermine the eurozone's ability to absorb German exports (Hudson, 2012: 314-315).

Situating German crisis management in the longer historical perspective sketched out above provides us with a second piece of this puzzle: in as far as the European home market is included in this self-centred and globally oriented crisis management strategy, it enters the equation not so much as a vital outlet but as a regional production platform for German exports.

Much of the scholarly literature has focused on the extension of German manufacturing networks from the Benelux countries, northern Italy and Austria to the low-wage economies in the former Eastern bloc (Becker, 2015: 238; Bruff, 2015: 117). This spatial reorganisation of

industrial activity is by no means limited to the Visegrád countries, however. Germany today stands at the centre of supply chains that link the old EU to the current EU27, whose members “export intermediates to other EU15 countries in particular for use in those countries’ exports” (de Backer, Miroudot and Ragoussis, 2013: 86). Even within the smaller group of euro members, Germany’s role is preponderant: the added value streams into and out of Germany make up 28.8% and 23% of the eurozone total (Amador et al., 2015: 12). Notwithstanding the growing importance of emerging economies, “most of Germany’s foreign inputs are sourced from other EU countries”. In fact, “the share of these inputs contributed by EU15 member states is greater than the share contributed by the [Central and Eastern European] countries that joined the EU in 2004 and 2007” (de Backer, Miroudot and Ragoussis, 2013: 90).

The lead role of German manufacturers in European and global supply chains has been widely credited for their strong export performance despite intensified competition from emerging market economies (Gräf et al., 2013: 9; Vihriälä and Wolff, 2013: 68). This is due in large part to the ability of German exporters to parcel out and optimise production across this new industrial landscape in both East and West. According to an annual survey conducted by the Association of German Chambers of Commerce and Industry (DIHK) among its members, the 14 old EU countries are becoming an increasingly attractive host of foreign direct investment for German manufacturers seeking to cut costs (DIHK, 2015: 3). The explanation and in part prescription offered by the DIHK is that the reform efforts undertaken by European countries are now more strongly reflected in the investment decisions of German manufacturing companies (DIHK 2015: 13). In contrast to their US counterparts, however, German corporations tend to relocate only low-skill and labour-

intensive parts of production, while retaining “company head offices, research and development and activities that require highly qualified, highly specialised and well paid staff” (Gräf 2013: 12). Rather than extricate themselves completely, they seek to offset the rigidities of the German social partnership (Dörrenbächer, 2004; Boyer, 2015: 215). There is, in other words, a distinctive *complementarity* between German foreign investment and domestic production that sets Germany apart from its neoliberal peers and illuminates its austerity course (Kwon, 2012).

The combination and reduction of unemployment and social benefits under the ‘Hartz IV’ reforms of 2002 marks a watershed in the country’s postwar economic history that is widely read as the German embrace of neoliberalism (Stützle 2013; Streeck 2009: 62-63). The reforms ruptured relations between the governing Red-Green coalition and their social democratic, trade unions, and working class constituency. They have led to an enormous increase in income inequality and old-age poverty. And the decline in unemployment has coincided with an enormous expansion of the part-time and low-wage sector as workers are compelled to take on precarious jobs in order to avoid punitive benefit cuts. But while the so-called neoliberal turn has shifted the German model from welfare to workfare, it has retained a rump of the postwar settlement: manufacturing firms and compliant workers, bound together in the pursuit of export success. In fact, Hartz IV in some respects has sustained this productivist core. The creation of a pool of temporary low-wage workers has allowed German industry to save costs by reducing the number of core employees and to respond more flexibly to the ebb and flow of world market demand (Hall, 2015: 48).

Thus while the social circle of its beneficiaries has dramatically narrowed, the spatial reach of the German model has been significantly extended. Similar to the bifurcation of the domestic labour market, the geographical dispersion of low-skill and labour-intensive portions of the production process serves as an auxiliary to Germany's manufacturing sector and supports the symbiosis of export success and domestic stabilisation. In this view, the privatisation of state assets, compression of wages and restructuring of labour markets that German elites have insisted upon most fiercely in exchange for financial assistance to deficit countries does make *some* sense. From the standpoint of capital, these structural reforms offer avenues for German manufacturers to 'nearshore' and optimise their production process. Accordingly, the DIHK report cited above praises Spain for raising the retirement age, freezing public sector wages, and increasing the number of workdays while concluding that there is further potential for reform especially in France and Italy (2015: 13-14). For German business, calls to improve the 'competitiveness' of the eurozone are quite patently about creating favourable conditions for German investment. And indeed, German firms have demonstrated a growing appetite to buy up European companies in the wake of the global financial crisis. While the overall volume of cross-border mergers and acquisition (M&A) within the eurozone more than halved between 2007 and 2016, Germany's cross-border M&A strongly rebounded and is expected to surpass its pre-crisis peak this year. Although the figures fluctuate from quarter to quarter, at the end of 2016 its share stood an all-time high of 16.5% of all intra-eurozone M&A (Thomson One 2017, my calculations).

The official mind of German crisis management is of course less transparent, and whether they share this opportunistic outlook is difficult to demonstrate conclusively. And yet it is certainly reflected in the views of some of those providing policy expertise. The Kiel

Institute for the World Economy, a prestigious think tank which helped design the Maastricht criteria for the euro and which in April 2015 won a bid to advise the European Parliament on monetary and economic policy, provides one illuminating example. In a 2012 study on Germany's trade performance, two of its lead analysts (Jannsen and Kooths, 2012: 372) outline a solution to the trade imbalances that plague the eurozone: rather than strike out on their own, firms from European deficit countries should integrate into the global value chains dominated by German exporters as "a short-cut to target foreign markets that would otherwise remain beyond their scope" (Jannsen and Kooths, 2012: 372). The road to an economic recovery they outline is premised not only on the centrality of German export manufacturing but also on the incorporation of other eurozone economies as intermediate suppliers. In this view, measures such as wage and pensions cuts, working time increases, and the restriction of job security that German officials have demanded from crisis countries advance a particular kind of economic integration. Whether it can actually solve the eurocrisis through a German-centred export drive is doubtful. But in as much as this structural adjustment reinforces Germany's world market position and benefits its export-oriented firms and highly skilled workers, it helps prop up what is left of its social model by removing what remains of the postwar settlement elsewhere.

Caught between Cycles

The previous section has argued that German-inspired austerity is in part about incorporating other parts of Europe into Germany's transnational production complex, in order to reproduce in a new world-historical context a distinctive political economy inherited from Germany's late industrialisation.

Still, we cannot be entirely satisfied. After all, the real paradox of austerity politics is that it appears to be self-defeating even from the narrowly instrumentalist point of view of German policy makers or businesses. Not only have the mandated budget cuts, labour market reforms and privatisation schemes failed to stabilise the financial situation and decimated economic output and employment in the targeted countries. The humanitarian catastrophe and political fallout also raise the serious risk, manifest at least twice in the last six years in the hard line taken against Greece, of forcing a country out of the eurozone and undermining the monetary, economic and political foundations of the European Union (Baru, 2012: 53). The final and most crucial piece of the puzzle, then, is why German state elites continue to vehemently insist upon a path of austerity in a situation that many observers decry as defying any rational cost-benefit analysis. The answer, I argue, is to be found at a second level of advanced unevenness: the growth differentials that emerge between national economies at dissimilar points in their domestic cycles of expansion and contraction.

Mapped onto the terrain of differently timed and pronounced peaks and troughs, the causal chain of events presents itself in this light: Europe went into recession later than the United States, and, at the outset, Germany seemed to be spared from the repercussions of the subprime mortgage crisis. The German economy was affected primarily through the financial exposure of its banks. This time lag is significant for understanding why German policy makers were reluctant at first to adopt counter-cyclical measures. It was only when the critical metric of German exports plummeted by as much as one third between October 2008 and May 2009 that the German government announced a stimulus package in the form of a car scrappage programme and subsidised short-term work. Conversely, once exports

rebounded to their pre-crisis levels in the first quarter of 2010, the Germany policy stance shifted back to its default preference for fiscal retrenchment. Measured in total exports, the German economy recovered its losses at precisely the moment when peripheral eurozone countries were hit by the public debt fallout of the financial crisis. The commitment to austerity exacted as a condition for bailing out Greece and other eurozone economies has to do with this change in economic fortunes (Cesaratto and Stirati, 2010: 69).

The reasons for the G20 summit's "curious spectacle of the Americans arguing for global Keynesianism while the Germans... demanded regional austerity" (Blyth, 2013a: 59), I propose, need to be sought primarily in this conjunctural crossover. The issue here is not simply that different national economic contexts produce different policy stances. It is rather that the difference *between* divergent but conjoined growth cycles exercises pressures on policy elites on top of those emanating from their domestic situation.

The aggressive use of monetary expansion and fiscal stimulus by the United States, prompting similar actions from many central banks and states of the advanced capitalist and emerging economies, has both enabled the German export economy to free-ride its way towards recovery and exacerbated the concerns of its state administrators about the global repercussions. They could passively benefit from the stimulus programmes being adopted elsewhere while still warning, with some degree of sincerity, that the public debt accumulated in this process could become unsustainably high or that the spiral of easy money could fuel global inflation, speculative bubbles, or currency wars. The most pressing concern, according to an IMF report (2016), is that the ultra-low interest rate environment so far sustained by the world's major central banks threatens the ability of insurance

companies and savings banks to cover their future liabilities. And yet the battles over the direction of the ECB—which German support above all endows with credibility (Pettis 2015)—are not simply about these negative consequences. In addition to the societal interests opposed to keeping borrowing costs at record lows, Germany’s central bankers also face international circumstances they cannot control. As one Bundesbanker recently put it, “what happens when a phase of low rates comes to an end also needs to be investigated” (Dombret, 2017).

Apart from the struggle over *substance*, therefore, a critical complication is the question of *timing*. Germany’s export-led recovery banks on continuous demand from other countries. But what will happen once the United States, who acts as “the global consumer of last resort” (Panitch and Gindin, 2011:15)—and whose extremely accommodating monetary policy has had global spillover effects that have so far rewarded German inaction—begins seriously to phase out its infusion of liquidity? The fact that the US and UK are undergoing a modest recovery has prompted their monetary authorities to begin to roll back their infusion of liquidity. The Federal Reserve officially ended its stimulus programme of purchasing Treasury and mortgage-backed securities in October 2014. Since December 2015, it has raised interest rates in three modest steps. That same year, the ECB only started—in the context of a continuing slump and yet against German objections—to launch an equivalent programme of quantitative easing.

The worst-case scenario on the minds of German authorities is that the Fed’s departure from near-zero interest rates will attract an influx of global capital that could destabilise and drain the world economy of liquidity (Belke, 2014: 7). Bundesbank officials have repeatedly

cautioned that “one thing is certain: interest rates will rise again at some point” (Dombret, 2014a) and recited the old slogan that “when the United States sneezes, the world catches a cold” (Dombret, 2014b). It is of course difficult to distinguish between the rhetoric cited in support of austerity and the actual rationale behind it. German policy makers, after all, also routinely invoke different economic policy ‘cultures’ to justify divergent economic trajectories and policy preferences. But retired officials raise the same points even more explicitly. Axel Weber, the German former frontrunner for head of the ECB who dropped out of the race and resigned as Bundesbank president in April 2011 over his isolated opposition to ECB bond purchases, has warned explicitly that an ill-timed reversal of US monetary accommodation poses enormous problems for a laggard Europe: “Emerging markets will not be the only ones to suffer when this trend goes into reverse. A tightening in US monetary policy always causes fallout. This time will be no different. In fact, it may be worse, since the tightening starts from extremely expansionary territory” (Weber, 2014). His conclusion is that the prospects of a Fed rate rise mean that “European policy makers need to enact further reforms and need to work on generating dynamics, even harder than if U.S. monetary policy were to stay on the same course” (quoted in Riecher, 2013).

While German policy makers are not the only ones to raise the problem of a ‘disorderly exit’ (cf. BIS, 2014), their political economy is doubly exposed to its global ramifications. On the one hand, its global export dependence renders German capitalism vulnerable to sudden capital outflows or spiralling debt servicing costs that could disrupt the rapid and potentially overheated economic development of the late industrialising giants – a scenario foreshadowed by the emerging market turmoil of May 2013 that followed the news of the Fed’s plans to taper back its bond-buying programme (Bruff, 2015:122). On the other hand,

as the eurozone's central economy and one of its largest creditors, Germany has an enormous stake in ensuring the sustainability of public and private debt. In the face of faltering economic growth, however, the eurozone is finding it impossible to deleverage. Between 2007 and 2017, its ratio of total debt to GDP increased by 70 percentage points, compared to only 16 and 30 percentage points in the US and UK (Dobbs et al., 2015: 4, my calculations).

This growing divergence in the pace of indebtedness raises the question of how to manage the service of debt and retain the confidence of investors in the event of a monetary shift. As the Bundesbank chief Jens Weidmann (2017) put the point most forcefully, ultra-low interest rates have created an "illusion of sustainability" which will dissolve once interest rates rise again. The danger is that the ECB might be caught off guard and compelled to reverse its overly lax monetary course on which a still stagnant and ever more indebted eurozone depends. In view of this scenario, German officials complain that the unorthodox steps taken by the ECB since the onset of the crisis simply 'bought time' that is being squandered (Streeck, 2014; cf. Schäuble, 2015).

The unprecedented nature of these measures means that the precise course of events is impossible to foresee. As a rule of thumb, one analyst suggests, "[t]he exact degree of disruption depends on...how strong the timing of the tightening process differs across central banks" (Belke, 2014: 11). The uncertainty around a unilateral exit by the United States, and a heightened sense that time is running out, feeds into the growing 'resolve' of German policy makers to bear down more heavily on deficit countries even as the political and economic costs outweigh the perceivable payoffs. The vehement insistence on fiscal

consolidation and structural adjustment, and the growing determination of a faction within the German political establishment to exclude unreformable countries from a hardening core of the eurozone, can be read as increasingly desperate attempts to prepare against this economic fallout. The key point is that 'advanced unevenness', understood as divergent growth trajectories, adds lateral pressures that propel state managers to travel down the road of austerity further than can be explained on the basis of the social balance of forces or ruling ideas.

Conclusion

This article has sought to provide a more comprehensive and compelling account of Germany's controversial management of the eurocrisis than those currently on offer. Its main theoretical target has been the widely influential, realist-inspired depiction of Germany as a geo-economic power that is locked into mutually damaging policy conflict with its European partners because of its strong but vulnerable position in the international arena. This article has argued that this explanation rests on a tenuous analogy with security competition that fails to adequately theorise and empirically substantiate the international sources of Germany's self-centred and self-limiting behaviour.

Instead, this article has spelled out the set of determinations in the international sphere that emerge not from anarchy in the realist sense but from the developmental differences between its constituent parts: states, societies and economies that, while capitalistically advanced, continue to differ in both their historical structures and national growth cycles. Seen through this lens, the German approach to the eurocrisis appears to be conditioned by

two intersecting processes. The first is the ever-deepening export orientation of the German economy which can be traced back to its peculiar integration into the world market in the late nineteenth century and which continues to be central to the productivist compromise struck with organised labour after 1945. I argue that the structural fit between these features of the German political economy and social model and the rise of a new generation of capitalist late industrialisers in Asia and Latin America tendentially relegates the eurozone to a subsidiary role as a regional production centre for German manufacturers. Austerity within the eurozone makes sense in as much as the region is seen not as a final outlet but a springboard to global markets and insofar as it promises to lower production costs for German exporters operating in or sourcing inputs from structurally adjusted economies. At the same time, it allows German policy makers to preserve the shrinking core of a uniquely export-dependent postwar settlement with privileged segments of skilled workers that contribute to and draw material benefits from the international competitiveness of German manufacturers.

But what really pushes austerity beyond such a sober cost-benefit analysis is a second dimension of advanced unevenness. The divergence between the belated and prolonged slump in Europe and the United States as the first to enter and prospectively emerge from the crisis raises the risk of an untimely shift in US monetary policy. The resulting global interest rate differential could prompt destabilising capital movements from emerging markets and curtail German exports to these economies, as well as drive up the costs of borrowing to the point of rendering Europe's public and private debt unsustainable.

The point here is not to construe an overarching rationality that explains every twist and turn in the ongoing odyssey of the eurocrisis. It is rather to insist that the outlook and interests, as well as the biases and blindspots, that characterise the crisis response of German state administrators are generated by their country's changing place in a dynamic world economy rather than by the invariant pressures of international anarchy. And while there clearly is a place for accounts that investigate the social forces which support austerity or the economic ideas that legitimate it, it is these international determinants that render the German imposition of austerity not simply a rational if risky choice but an urgent necessity which, in the eyes of German officials, seems to be without alternative.

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